Syria setting economic reform tone for new decade

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As Syria prepares to take stock of the first decade under President Bashar Al Assad's rule, observers of the Arab state will record a period of significant reform, the implications of which are steadily transforming both the country itself, and its standing in the wider region. With a new five-year plan under development however, 2010 will not be merely a year for reflection, but an important milestone in setting the tone of reform for the decade to come.

Of the various reforms undertaken over the past decade, perhaps the most significant have been those relating to the financial services sector. Prior to 2004, banking in Syria was a static state monopoly serviced by six public banks, with the largest being the Commercial Bank of Syria (CBoS). Following liberalisation however, 10 private commercial banks now operate in the country, while restrictions on convertibility have also been eased to allow Syrians to transfer up to $10,000 in foreign currency each month.

Private insurance companies and other financial services followed banks in 2005 and 2007, respectively. The liberalisation of capital that this process kick-started will transform Syria from "a socialist to a social market economy". The capacity of private banks to finance capital projects is growing steadily, as demonstrated by Bank Audi Syria's provision of a $380m bridging loan to Lafarge recently for the construction of a new cement works.

Numerous challenges do remain in the financial sector. The opening of the Damascus Securities Exchange in 2009 was a significant step in widening access to capital for the private sector, although listings have been limited. Likewise, in the continued absence of treasury bills, or certificates of deposit, private banks continue to have limited tools with which to price debt. A further decree issued in the second week of January 2010, requiring an increase in minimum capital from $30m to $200m, is also likely to prove controversial, though it was sweetened by a concession allowing private banks to increase their ownership from 49% to 60%, which may well result in more big hitters entering the Syrian banking sector in 2010.

As oil revenues continue to decline, the government will be hoping that investment - both in the form of capital from the nation's new private banks, as well as foreign direct investment – will be able to ensure the 7% annual growth estimated to be required to provide enough jobs for Syria's ever-expanding labour market. After early predictions from the government of 6% growth for 2009 (5.2% from the IMF), a downward revision was required midway through the year to account for the impact of continued drought in the agricultural sector and a severe recession in the textiles industry. The IMF revised growth expectations to 3% for 2009, although it expects 2010 to be more positive, with growth projected at 4.2%, while the government has announced growth of 4.5% for 2009.

One tenet of the government's reform strategy has been improving business infrastructure - a crucial step, given that a major element in holding back more rapid growth is poor standards in accountancy among small and medium-sized private enterprises, which employ up to 70% of Syria's workforce. Low standards prompted the government to delay indefinitely the introduction of value-added tax in 2009, thus hampering the transition of the state from oil revenues to tax-based revenues. Moreover, poor accountancy is affecting access to capital for these same companies from the nascent private banking sector. The expansion of Syria's NGO sector (a feature of the 10th Five-Year Plan currently being concluded) means that there are now organisations such as the Syrian Enterprise and Business Centre, or indeed the First Microfinance Institution, which can provide advice and/or credit to private businesses, big and small. However, strengthening private enterprise will continue to remain an economic priority.

In all likelihood, the coming period will see further liberalisation of the economy, though not necessarily towards the US and EU. Instead, the beneficiary is likely to be Turkey, which recently concluded a visa exemption agreement with Syria, and has overseen the creation of a visa-free zone now including Syria, Lebanon and Jordan.